Franklin Street Property Trust

ABN: 34 563 344 540

Annual financial report
For the year ended 30 June 2015

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Directors' report

For the year ended 30 June 2015

The directors of Charter Hall Wholesale Management Limited, the Trustee of Franklin Street Property Trust (FSPT), present their report together with the consolidated financial statements of the Trust for the year ended 30 June 2015. The Trust comprises Franklin Street Property Trust and its controlled entities (together, the Trust).

On 19 December 2014, FSPT changed its name from 12-26 Franklin Street Property Trust to Franklin Street Property Trust.

Principal activities

The principal activity of the Trust during the year was property investment. The Trust's activities include investments in direct property in Australia. There were no significant changes in the nature of the Trust's activities during the financial year.

Directors

The following persons have held office as directors of the Trustee during the year and up to the date of this report:

- David Harrison - Executive Chairman
- David Southon - Executive Director
- Adrian Taylor - Executive Director

Review and results of operations

The performance of the Trust, as represented by the results of its operations for the year, was as follows:

	2015 $'000	2014 $'000
Net property income	**17,331**	17,404
Rental support	**673**	1,152
Straightlining of rental income	**(1,842)**	(2,698)
Operating income	**16,162**	15,858
Fund management fees	**(874)**	(341)
Administration and other expenses	**(88)**	(50)
Operating expenses	**(962)**	(391)
Earnings before interest and tax	**15,200**	15,467
Interest income	**93**	29
Finance costs	**(7,188)**	(8,306)
Net interest expense	**(7,095)**	(8,277)
Operating earnings attributable to unitholders of FSPT	**8,105**	7,190
Non operating items		
Net fair value movements on investment properties	**16,294**	24,060
Net fair value movements on derivative financial instruments	**842**	(1,795)
Straightlining of rental income	**1,842**	2,698
Rental support	**(673)**	(1,152)
Total non operating items	**18,305**	23,811
Net profit attributable to unitholders of FSPT	**26,410**	31,001

Operating earnings is a financial measure which represents the profit/(loss) under Australian Accounting Standards adjusted for net fair value movements and non-cash accounting adjustments such as straightlining of rental income and amortisations.

The inclusion of operating earnings as a measure of the Trust's profitability provides investors with the same basis that is used internally for evaluating performance, making strategic decisions and determining distributions during the year.

Distributions

The distributions of income to unitholders for the financial year ended 30 June 2015 was $8,105,000 (2014: $6,415,000).

Significant changes in the state of affairs

During May 2015, the cash advance facility agreement was amended and restated, extending the maturity to 30 June 2020 and increasing the facility limit from $139,300,000 to $146,500,000.

On 28 May 2015, FSPT settled 2-10 Franklin Street and 145-159 King William Street, Adelaide properties. The acquisitions were funded through the cash advance facility.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Trust that occurred during the year under review.

Directors' report (continued)

For the year ended 30 June 2015

Matters subsequent to the end of the financial year

The directors of the Trustee are not aware of any matter or circumstance not otherwise dealt within this report or the financial report that has significantly affected or may significantly affect the operations of the Trust, the results of its operations or the state of affairs of the Trust in the financial years subsequent to the year ended 30 June 2015.

Likely developments and expected results of operations

At the date of this report and to the best of the directors' knowledge and belief, there are no other anticipated changes in the operations of the Trust which would have a material impact on the future results of the Trust. Property valuation changes, movements in the fair value of derivative financial instruments and interest rates may have a material impact on the Trust's results in future years. However, these cannot be reliably estimated at the date of this report.

Further information on likely developments in the operations of the Trust and the expected results of operations have not been included in this financial report because the responsible entity believes it would be likely to result in unreasonable prejudice to the Trust.

Indemnification and insurance of directors, officers and auditor

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to either the officers of the Trustee or the auditor of the Trust.

Provided the officers of the Trustee act in accordance with the Trust's Constitution and the *Corporations Act 2001*, the officers are indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust. The Trust indemnifies the auditor (PricewaterhouseCoopers Australia) against any liability (including legal costs) for third party claims arising from a breach by the Trust of the auditor's engagement terms, except where prohibited by the *Corporations Act 2001.*

Units in the Trust

The number of units issued at 30 June 2015 was made up of 34,620,202 (2014: 34,620,202) ordinary units and 20 (2014: 20) "B" Class units.

The movement in units on issue in the Trust during the year is disclosed in Note 11 to the consolidated financial statements.

Fees paid to and interests held in the Trust by the responsible entity or its associates

Fees paid or payable to the Trustee or its associates for services provided during the year are in accordance with the Trust's Constitution.

Rounding of amounts

Amounts in the directors' report have been rounded to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of the directors.

David Harrison

Director

Sydney

21 September 2015

Consolidated statement of comprehensive income

For the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Revenue			
Property rental income		**20,606**	20,350
Interest income		**93**	29
Total revenue		**20,699**	20,379
Other income			
Net fair value gain on investment properties	6	**16,294**	24,060
Net gain on derivative financial instruments	3(a)	**895**	-
Total other income		**17,189**	24,060
Total revenue and other income		**37,888**	44,439
Expenses			
Property expenses		**(3,275)**	(2,946)
Fund management fees		**(874)**	(341)
Administration and other expenses		**(88)**	(50)
Net loss on derivative financial instruments	3(a)	**(53)**	(1,795)
Finance costs	3(b)	**(7,188)**	(8,306)
Total expenses		**(11,478)**	(13,438)
Net profit		**26,410**	31,001
Other comprehensive income		**-**	-
Total comprehensive income		**26,410**	31,001

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As at 30 June 2015

	Notes	2015 $'000	2014 $'000
Current assets			
Cash and cash equivalents	4	**743**	4,402
Receivables		**164**	23
Other assets		**8**	-
Total current assets		**915**	4,425
Non-current assets			
Investment properties	6	**256,392**	236,606
Derivative financial instruments	5	**895**	-
Total non-current assets		**257,287**	236,606
Total assets		**258,202**	241,031
Current liabilities			
Payables	7	**952**	13,047
Distribution payable	8	**2,142**	1,771
Other liabilities	10	**-**	2,265
Total current liabilities		**3,094**	17,083
Non-current liabilities			
Borrowings	9	**139,406**	126,618
Derivative financial instruments	5	**1,791**	1,724
Total non-current liabilities		**141,197**	128,342
Total liabilities		**144,291**	145,425
Net assets		**113,911**	95,606
Equity			
Contributed equity	11	**51,494**	51,494
Retained profits	12	**62,417**	44,112
Total equity		**113,911**	95,606

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2015

		Attributable to unitholders of Franklin Street Property Trust		
	Notes	Contributed equity $'000	Retained profits $'000	Total $'000
Balance at 1 July 2013		31,000	19,526	50,526
Total comprehensive income		-	31,001	31,001
Contributions of equity net of issue costs	11	20,494	-	20,494
Distributions provided for or paid	8	-	(6,415)	(6,415)
Balance at 30 June 2014		51,494	44,112	95,606
Total comprehensive income		**-**	**26,410**	**26,410**
Distributions provided for or paid	8	**-**	**(8,105)**	**(8,105)**
Balance at 30 June 2015		**51,494**	**62,417**	**113,911**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Cash flows from operating activities			
Property income received (inclusive of outgoings)		**19,050**	21,227
Property expenses paid		**(3,435)**	(2,959)
Interest received		**93**	29
Finance costs		**(7,380)**	(8,135)
Fund expenses paid		**(2,171)**	(1,807)
Net GST paid with respect to investing activities		**(512)**	-
Net cash flows from operating activities	13	**5,645**	8,355
Cash flows from investing activities			
Payments for investment properties		**(12,774)**	-
Capital expenditure on investment properties		**(1,724)**	-
Net cash flows from investing activities		**(14,498)**	-
Cash flows from financing activities			
Proceeds from issue of units		**-**	20,494
Proceeds from borrowings		**13,859**	21,700
Repayment of borrowings		**(931)**	(42,000)
Distributions paid to unitholders		**(7,734)**	(5,124)
Net cash flows from financing activities		**5,194**	(4,930)
Net (decrease)/increase in cash and cash equivalents		**(3,659)**	3,425
Cash and cash equivalents at the beginning of the year		**4,402**	977
Cash and cash equivalents at the end of the year	4	**743**	4,402

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

For the year ended 30 June 2015

1 Summary of significant accounting policies

The significant policies which have been adopted in the preparation of these consolidated financial statements for the year ended 30 June 2015 are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

The Trustee of the Trust is Charter Hall Wholesale Management Limited (Trustee). The Trustee's registered office is Level 20, 1 Martin Place, Sydney NSW 2000.

Franklin Street Property Trust is a Trust constituted in Australia. The nature of the operations and principal activities of the Trust are described in the Directors' Report.

(a) Basis of preparation

Special purpose financial report

In the directors' opinion, the Trust is not a reporting entity because there are no users dependent on general purpose financial reports.

This is a special purpose financial report that has been prepared for the sole purpose of complying with the requirements of the Trust's constitution to prepare and distribute a financial report to the members and must not be used for any other purpose. The financial report has been prepared in accordance with the recognition and measurement principles of all applicable Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, accounting policies disclosed in this note and the Trust Deed. It contains the disclosures that are mandatory under the Accounting Standards and those considered necessary by the directors to meet the needs of the members. Franklin Street Property Trust is a for-profit entity for the purpose of preparing the consolidated financial statements.

Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for the following:

- investment properties – measured at fair value
- derivative financial instruments – measured at fair value

New and amended standards adopted

No new accounting standards or amendments have come into effect for the year ended 30 June 2015 that affect the Trust's operations or reporting requirements.

Critical accounting estimates

The preparation of the consolidated financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Trust's accounting policies.

The areas involving significant estimates or judgements are:

- Derivative financial instruments – Note 1(g)
- Investment properties – Note 1(j)
- Fair value estimation – Note 1(o)

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Trust and that are believed to be reasonable under the circumstances.

Net current asset deficiency

At 30 June 2015, the Trust has a net deficiency of current assets over current liabilities of $2,179,000 (2014: $12,658,000). The Trust will be able to meet its day-to-day working capital requirements from future equity calls from unitholders, available cash advance facility capacity and operating cash flows. The unitholders will only receive their distributions to the extent that the Trust has sufficient working capital.

Based on the facts set out above, the results and cash flows, there are reasonable grounds for the Trustee to believe the Trust will be able to meet its debts as and when they become due and payable and accordingly the consolidated financial statements have been prepared on a going concern basis.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2015

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation

Controlled entities

Subsidiaries are all entities over which the Trust has control. The Trust controls an entity when the Trust is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Trust. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Trust.

(c) Revenue recognition

Rental income

Property rental income represents income earned from the rental of Trust properties (inclusive of outgoings recovered from tenants) and is recognised on a straight line basis over the lease term. The portion of rental income relating to fixed increases in operating lease rentals in future years is recognised as a separate component of investment properties.

Interest income

Interest income is recognised using the effective interest rate method.

(d) Expenses

Property expenses, other expenses and outgoings, including rates, taxes and other property outgoings incurred in relation to investment properties where such expenses are the responsibility of the Trust, are recognised on an accruals basis.

(e) Income tax

Under current Australian income tax legislation, the Trust is not liable to pay income tax provided its income for the year, as determined under the Trust's constitution, is fully distributed to unitholders, by way of cash or reinvestment.

The liability for capital gains tax that may arise if the Australian properties were sold is not accounted for in these consolidated financial statements.

(f) Trade and other receivables

Receivables are initially recognised at the amounts due to the Trust. Rent and outgoings receivables are usually settled within 30 days of recognition.

Collectability of trade receivables are reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the year in which they are identified. A provision for doubtful debts is raised where there is objective evidence that the Trust will not collect all amounts due. The amount of the provision is the difference between the carrying amount and estimated future cash flows. Cash flows relating to current receivables are not discounted.

(g) Derivative financial instruments

Derivative financial instruments held as financial assets or financial liabilities designated at fair value through profit or loss are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. From time to time, the Trust may designate certain derivatives as either hedges of net investments in foreign operations (net investment hedges) or hedges of exposures to variability in cash flows associated with future interest payments on variable rate debt (cash flow hedges).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2015

1 Summary of significant accounting policies (continued)

(g) Derivative financial instruments (continued)

To qualify as effective hedging, the Trust documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Trust also documents its assessment, both at hedge inception and on an ongoing basis, of whether derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

None of the financial derivative contracts held by the Trust as at 30 June 2015 qualify for hedge accounting, and accordingly, changes in the fair value of these contracts are recorded in the consolidated statement of comprehensive income.

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statements of comprehensive income on a straight-line basis. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

(i) Lease incentives

Prospective lessees may be offered incentives as an inducement to enter into non-cancellable operating leases. These incentives may take various forms including rent-free periods, upfront cash payments, or a contribution to certain lessee costs such as a fitout contribution. Incentives are capitalised in the consolidated balance sheet as a component of investment properties and amortised over the term of the lease as an adjustment to net rental income.

(j) Investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of producing rental income, including properties that are under construction for future use as investment properties.

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, the investment properties are stated at fair value. Fair value of investment property is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. Gains and losses arising from changes in the fair values of investment properties are included in the consolidated statement of comprehensive income in the year in which they arise.

At each balance date, the fair values of the investment properties are assessed by the Trustee with reference to independent valuation reports or through appropriate valuation techniques adopted by the Trustee. Fair value is determined using a long term investment period. Specific circumstances of the owner are not taken into account.

The fair value measurement of investment property takes into account the Trust's ability to generate economic benefits by using the asset in its highest and best use.

The use of independent external valuers is on an annual basis, or earlier, where the Trustee deems it appropriate or believes there may be a material change in the carrying value of the property.

Where an independent valuation is not obtained, the factors taken into account, where appropriate, by the Directors in determining fair value may include:

- Assume a willing buyer and willing seller, without duress and an appropriate time to market the property to maximise price;
- Information obtained from valuers, sales and leasing agents, market research reports, vendors and potential purchasers;
- Capitalisation rates used to value the asset, market rental levels and lease expiries;
- Changes in interest rates;
- Asset replacement values;
- Discounted cash flow models;
- Available sales evidence;
- Comparisons to valuation professionals performing valuation assignments across the market; and
- Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The carrying amount of investment properties recorded in the consolidated balance sheet takes into consideration components relating to lease incentives, leasing costs and assets relating to fixed increases in operating lease rentals in future years.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2015

1 Summary of significant accounting policies (continued)

(j) Investment properties (continued)

Where the Trust disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the consolidated statement of comprehensive income within net fair value gain/(loss) on investment property.

As the fair value method has been adopted for investment properties, the buildings and any component thereof (including plant and equipment) are not depreciated. Taxation allowances for the depreciation of buildings and plant and equipment are claimed by the Trust and contribute to the tax deferred component of distributions.

(k) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Trust. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(l) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of comprehensive income over the period of the borrowing using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. If the facility has not been drawn down the fee is capitalised as a prepayment and amortised over the period of the facility to which it relates.

(m) Contributed equity

Units on issue are classified as equity and recognised at the fair value of the consideration received by the Trust. Transaction costs arising on the issue of equity are recognised directly in equity as a reduction in the proceeds of units to which the costs relate.

(n) Distributions paid and payable

A liability is recognised for the amount of any distribution declared by the Trust on or before the end of the reporting year but not distributed at balance date.

(o) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is determined using quoted market prices at the balance date. The quoted market price used for financial assets held by the Trust is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Trust uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Trust for similar financial instruments.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets (with the exception of receivables) are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are inclusive of GST. The net amount of GST recoverable from or payable to the tax authority is included in receivables or payables in the consolidated balance sheet.

Cash flows relating to GST are included in the consolidated statement of cash flows on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2015

1 Summary of significant accounting policies (continued)

(q) Impact of new standards and interpretations issued but not yet adopted by the Trust

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2015 reporting period but are available for early adoption. The impact of these new standards and interpretations (to the extent relevant to the Trust) is set out below:

(i) AASB 9 Financial Instruments (Applicable 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and liabilities and sets out new rules for hedge accounting. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, would therefore have to be recognised directly in the statement of comprehensive income. The Trust has not yet decided when to adopt AASB 9 and management is currently assessing the impact of the new standard.

(r) Comparative information

Where necessary, comparative information has been adjusted to conform with changes in presentation in the current year.

(s) Trust formation

The Trust was established on 13 October 2010.

(t) Rounding of amounts

Amounts in the financial statements have been rounded to the nearest thousand dollars, unless otherwise indicated.

2 Distributions paid or payable

	2015 $'000	2014 $'000
September quarter distribution	**1,921**	1,440
December quarter distribution	**2,036**	1,440
March 2015 quarter distribution	**2,006**	-
June 2015 quarter distribution	**2,142**	-
1 January to 8 April 2014 distribution	**-**	1,764
9 April to 30 June 2014 distribution	**-**	1,771
Total distributions	**8,105**	6,415

The Trust had a distribution payable of $2,142,000 as at 30 June 2015 (2014: $1,771,000).

3 Profit

The profit/(loss) from continuing activities before income tax includes the following items of revenue and expenses:

(a) Net gain/(loss) on derivative financial instruments

	2015 $'000	2014 $'000
Net fair value gain on derivative financial instruments	**895**	-
Net fair value loss on derivative financial instruments	**(53)**	(1,795)
	842	(1,795)

(b) Finance costs

	2015 $'000	2014 $'000
Interest expense on bank loan	**(5,946)**	(6,253)
Interest expense on other loans	**-**	(1,156)
Finance fee expense on bank loan	**(135)**	-
Net swap interest	**(928)**	(694)
Amortisation of borrowing costs	**(179)**	(203)
	(7,188)	(8,306)

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2015

3 Profit (continued)

(c) Fund management fees

Management fees of $874,000 (2014: $341,000) was paid during the year.

Management fees were payable by the Fund from 27 March 2013 to 9 April 2014 to Aspen Property Developments Pty Ltd, a related party of the trustee during this period, based on 0.1% of the property value. From 9 April 2014, management fees are payable to Charter Hall Holdings Pty Ltd, a related party of the trustee, based on 0.4% of the property value.

4 Cash and cash equivalents

	2015 $'000	2014 $'000
Cash and cash equivalents	**743**	4,402
	743	4,402

Interest is receivable monthly in arrears. At 30 June 2015, the interest rate was 2.0% p.a. (2014: 2.5% p.a.).

5 Derivative financial instruments

	2015 $'000	2014 $'000
Non-current assets		
Interest rate swaps	**895**	-
	895	-
Non-current liabilities		
Interest rate swaps	**1,791**	1,724
	1,791	1,724

Interest rate swaps

The Trust has entered into interest rate swaps totalling $104,625,000 (2014: $104,625,000) that entitle it to receive interest, at monthly intervals, at a floating rate on a notional principal amount and oblige it to pay interest at a fixed rate on the same amount. The interest rate swap agreements allow the Trust to raise long term borrowings at a floating rate and effectively swap them into a fixed rate. The interest rate swap matures in June 2022.

The Fund has also entered into a forward start interest rate swap totalling $71,000,000 to start in December 2015 and expiring in December 2020.

Hedge accounting has not been applied to the interest rate swaps and accordingly, changes in the fair value of the swap contracts are recorded in the statement of comprehensive income. Notwithstanding the accounting outcome, the Trustee considers that these contracts are appropriate and effective in offsetting the economic interest rate exposures of the Fund.

6 Investment properties

As at 30 June 2015, the investment properties have been valued as set out below:

Properties	Acquisition date	Date of latest independent valuation	Independent valuation $'000	2015 Fair value $'000	2014 Fair value $'000
12-26 Franklin Street, Adelaide SA	Jun 11	Jun 15	232,500	**232,500**	215,000
145-159 King William Street, Adelaide SA (leasehold)	Jun 14	Jun 15	7,600	**7,600**	6,362
2-10 Franklin Street, Adelaide SA	Jun 14	Jun 15	16,400	**16,292**	15,244
Total			256,500	**256,392**	236,606

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2015

6 Investment properties (continued)

Reconciliation of the carrying amount of investment properties at the beginning and end of the financial year is set out below:

	2015 $'000	2014 $'000
Opening balance	**236,606**	199,000
Acquisitions	**-**	12,000
Acquisition costs	**774**	-
Development capital expenditure	**1,549**	-
Straightline rent	**1,842**	2,698
Revaluations	**16,294**	24,060
Rental support	**(673)**	(1,152)
Closing balance	**256,392**	236,606

7 Payables

	2015 $'000	2014 $'000
Current liabilities		
Trade payables	**257**	38
Fund management fee payable	**229**	187
GST payable	**-**	141
Interest payable	**159**	225
Accruals	**307**	456
Consideration payable	**-**	12,000
	952	13,047

The consideration payable of $12,000,000 related to the purchase of 2–10 Franklin Street and 145-159 King William Street, Adelaide properties which settled on 28 May 2015.

8 Distribution payable

	2015 $'000	2014 $'000
Current liabilities		
Opening balance	**1,771**	480
Distributions declared	**8,105**	6,415
Distributions paid	**(7,734)**	(5,124)
Closing balance	**2,142**	1,771

9 Borrowings

	2015 $'000	2014 $'000
Non-current liabilities		
Bank loan	**140,228**	127,300
Unamortised borrowing costs	**(822)**	(682)
	139,406	126,618

Cash advance facility

During May 2015, the cash advance facility agreement was amended and restated, extending the maturity to 30 June 2020 and increasing the facility limit from $139,300,000 to $146,500,000.

The facility includes a bank guarantee of $2,000,000, which under the terms of the agreement reduces the available facility limit to $144,500,000. No liability is recognised for bank guarantees.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2015

10 Other liabilities

	2015 $'000	2014 $'000
Current liabilities		
Income received in advance	-	2,265
	-	2,265

11 Contributed equity

	2015 $'000	2014 $'000
Opening balance	**51,494**	31,000
Ordinary units equity issue	-	8,494
"B" class units equity issue	-	12,000
Closing balance	**51,494**	51,494

	2015 Units	2014 Units
Opening balance	**34,620,222**	29,611,106
Ordinary units issued during the year	-	5,009,096
"B" class units issued during the year	-	20
Closing balance	**34,620,222**	34,620,222

As stipulated in the Trust Constitution, each unit represents a right to an individual share in the Trust and does not extend to a right in the underlying assets of the Trust. Each unit confers the right to vote at meetings of unitholders, subject to any voting restrictions imposed on a unitholder under the Corporations Act 2001.

As stipulated in the Trust Constitution, the “B” class units have no voting rights and no rights to distributable income.

Units on issue are owned as follows:

	2015 Units	2014 Units
Ordinary Units		
TSPL FSPT Trust	**17,310,101**	17,310,101
CPOF FSPT Trust	**17,310,101**	17,310,101
	34,620,202	34,620,202
"B" Class Units		
TSPL FSPT Trust (issued at $1 per unit)	**10**	10
CPOF FSPT Trust (issued at $1,200,000 per unit)	**10**	10
	20	20

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2015

11 Contributed equity (continued)

Application Price

The Application price per ordinary unit calculated in accordance with Section 6.1(b) of the FSPT's constitution is as follows:

	2015 $'000	2014 $'000
Net tangible assets (under AAS) attributable to unitholders	**113,911**	95,606
Adjusted for:		
Property acquisition costs	**774**	-
Less: amortisation of property acquisition costs	**(12)**	-
Derivative financial instrument (assets)/liabilities	**853**	1,695
Adjusted (non AAS) net tangible assets attributable to unitholders, calculated in accordance with Section 6.1 (b) of the Trust Constitution	**115,526**	97,301

	2015 $ unit	2014 $ unit
Application Price per ordinary unit calculated in accordance with Section 6.1 (b) of the Trust Constitution as at the end of the year	**3.34**	2.81

The calculation of Application Price is not determined under Australian Accounting Standards but in accordance with Section 6.1(b) of the Fund Constitution. Under Section 6.1(b) of the Fund Constitution, the Trustee may determine the Application Price. The Trustee determines the Application Price by dividing Adjusted (non AAS) Net Tangible Assets by the number of units on issue.

Adjusted (non AAS) Net Tangible Assets is calculated as:

- Net Tangible Assets as calculated under AAS; plus
- Unamortised property acquisition costs (which include all actual acquisition costs incurred in acquiring the properties of the Trust subsequent to 9 April 2014, amortised over a 5 year period on a straight line basis form the date of the relevant acquisition); less
- The value of any derivative, whether it is a liability or an asset, to which the Trust may be a party that is included in the AAS Net Tangible Assets a the end of the financial year.

12 Retained profits

	2015 $'000	2014 $'000
Opening balance	**44,112**	19,526
Profit for the year	**26,410**	31,001
Distributions paid and payable	**(8,105)**	(6,415)
Closing balance	**62,417**	44,112

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2015

13 Reconciliation of profit to net cash flows from operating activities

	2015 $'000	2014 $'000
Profit for the year	**26,410**	31,001
Non-cash items		
Net fair value movements on investment properties	**(16,294)**	(24,060)
Net fair value movements on derivative financial instruments	**(842)**	1,795
Straightlining of rental income and amortisation of capitalised incentives	**(1,842)**	(2,698)
Other		
(Increase)/decrease in receivables	**(141)**	37
(Increase)/decrease in other assets	**(8)**	133
(Increase) in prepaid finance costs	**(139)**	(83)
Increase in payables	**94**	637
(Decrease)/increase in other liabilities	**(1,593)**	1,593
Net cash flows from operating activities	**5,645**	8,355

14 Remuneration of auditors

During the year the auditor of the Trust, PricewaterhouseCoopers, earned the following remuneration:

	2015 $	2014 $
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:		
Audit services	**22,000**	11,000
	22,000	11,000

15 Commitments

(a) Capital commitments

The Trust is committed to make certain expenditure. The maximum commitment of the Trust as at 30 June 2015 not recognised as liabilities is $600,000 (2014: nil).

(b) Other commitments

The Trust has no other commitments at the end of the financial year (2014: $nil).

16 Contingent liabilities

The Trust has no contingent liabilities at the end of the financial year (2014: $nil).

17 Events occurring after reporting date

The directors of the Trustee are not aware of any matter or circumstance not otherwise dealt within this report or the financial report that has significantly affected or may significantly affect the operations of the Trust, the results of its operations or the state of affairs of the Trust in the financial years subsequent to the year ended 30 June 2015.

Directors' declaration to unitholders

As stated in Note 1(a) to the financial statements, the Trust is not a reporting entity because, in the opinion of the directors of Charter Hall Wholesale Management Limited, the Trustee of Franklin Street Property Trust, it is unlikely that users exist who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs. This is a special purpose financial report that has been prepared to meet Trust Deed requirements.

The financial report has been prepared in accordance with Australian Accounting Standards and mandatory professional reporting requirements to the extent described in Note 1.

In the opinion of the directors of Charter Hall Wholesale Management Limited, the Trustee of Franklin Street Property Trust:

a the financial statements and notes set out on pages 5 to 18 are in accordance with the *Trust's constitution*, including:

   i complying with Accounting Standards, the *the accounting policies* and other mandatory professional reporting requirements; and

   ii giving a true and fair view of the Trust's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and

b There are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

David Harrison

Director

Sydney

21 September 2015

pwc

Independent auditor's report to the unitholders of Franklin Street Property Trust

Report on the financial report

We have audited the accompanying financial report, being a special purpose financial report, of Franklin Street Property Trust (the Trust), which comprises the consolidated balance sheet as at 30 June 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Franklin Street Property Trust (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at year's end or from time to time during the financial year.

Directors of the trustee responsibility for the financial report

The directors of the Charter Hall Wholesale Management Limited (the trustee) are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 1 to the financial statements, which forms part of the financial report, is appropriate to meet the requirements of the trust deed dated 13 October 2010 and is appropriate to meet the needs of the unitholders.

The directors of the trustee responsibility also includes such internal control as the directors of the trustee determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the trustee, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
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Auditor's opinion

In our opinion, the financial report of Franklin Street Property Trust gives a true and fair view of the financial position of the consolidated entity as at 30 June 2015 and its financial performance for the year then ended in accordance with the accounting policies described in Note 1 to the financial statements.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared to assist Franklin Street Property Trust to meet the requirements of the trust deed. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the unitholders of Franklin Street Property Trust.

PricewaterhouseCoopers

PricewaterhouseCoopers

J A Dunning

J A Dunning
Partner

Sydney
21 September 2015